

For: State and County Offices

**New Random Selection Process for 2007 Crop Year  
Marketing Assistance Loans (MAL's) and LDP's**

Approved by: Deputy Administrator, Farm Programs



**1 Overview**

**A Background**

MAL's and LDP's are subject to random spot checks. Currently, APSS randomly selects farm-stored loans and certified LDP's on a monthly basis for spot-check. The random selection process is based on the eligible loans and LDP's recorded in APSS, not necessarily by producer.

Beginning with the 2007 crop year, MAL's and LDP's will no longer be randomly selected within APSS. A new compliance review/spot check process has been developed for the following programs:

- Common Disaster Programs, if applicable
- CRP maintenance and practice checks.
- DCP
- MAL's and LDP's
- NAP
- Reported Acreage
- 2005 Hurricane Tap

**B Purpose**

This notice informs State and County Offices of the:

- new compliance review/spot check process
- selection process of MAL's and LDP's for spot checks for the 2007 crop year.

**Note:** APSS will continue to randomly select outstanding 2005 and 2006 crop year loans until December 2007.

<b>Disposal Date</b>  June 1, 2008 6-28-07	<b>Distribution</b>  State Offices; State Offices relay to County Offices
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## Notice LP-2068

### 2 2007 MAL and LDP Spot Check Selection Process

#### A Compliance Review/Spot Check Process Overview

Notice CP-617, provided specific details of the new compliance review/spot check selection process for several farm programs that included MAL's and LDP's.

The new compliance review/spot check selection process will:

- help reduce the number of spot checks performed monthly
- provide a more comprehensive and meaningful compliance review by covering all program activity for the selected producer
- enhance the way spot check findings are recorded
- implement OIG recommendations included in an audit of FSA compliance activities.

#### B Handling Spot Check Selection Process for MAL's and LDP's

Beginning with crop year 2007, the producers will be selected for spot checks instead of selecting individual loan or LDP numbers. County Offices will be required to spot check **all** 2007 crop MAL and LDP activity for the randomly selected producer. Spot checks shall be conducted in the same manner as previous crop years and as provided in 8-LP and 12-PS; however, County Offices will be responsible for recording spot check results of MAL's and LDP's identified for the selected producers in a newly developed National database. County Offices will be required to determine when the farm visit will be completed during the loan period.

**Note:** Notice CP-617 provides details on accessing the database and the information (questions) to be recorded.

When the spot-check reveals and it is determined that a shortage or violation occurred, County Offices shall continue to record the shortage or violation in APSS according to 12-PS and 15-PS.

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### 2 2007 MAL and LDP Spot Check Selection Process (Continued)

#### C Conducting Farm Visits

On-farm visits are required if farm-stored loan collateral or LDP quantities are still stored on the farm. At the storage site, commodity inspectors shall complete the spot check according to 8-LP, subparagraphs 516 B and 1553 B for wool, mohair, and unshorn pelts. Because MAL's and LDP's are disbursed throughout the applicable crop year, multiple farm visits may be necessary to complete the requirement to spot check all of the producer's MAL and LDP activity.

When multiple visits are made to the same farm, previously measured farm storage structures are **not** required to be measured again, unless the commodity inspector has reason to believe a violation has occurred or CCC security interest is at risk. Previously spot-checked loans or LDP's will be treated as related loan and LDP's according to 8-LP, subparagraphs 516 B and 1553 B, and shall always be visually inspected for proper maintenance of storage, commodity existence, and quality. County Offices will be responsible for determining when the on-farm visits shall be completed.

Spot check results shall be recorded on and according to the following:

- CCC-677-1
- MAL and LDP questionnaires provided in Exhibit 1
- Notice CP-617.

The spot check results will be recorded in the National database when the database becomes fully functional.

**Note:** Procedure for recording spot check results in the National database will be provided in a future LP notice.

#### D Adding Producers for Spot Check

County Offices can add additional producers for spot check that received MAL's and LDP's. If a producer is added as an additional spot check for the sole purpose of conducting a spot check of a specific MAL or LDP, then the County Office is **not** required to spot check the other programs identified in subparagraph 1 A regardless of the producer's participation in that program. For example, there may be certain situations within the MAL and LDP program that require a spot check be conducted within the loan period. If so, only producers with those MAL's and LDP's will be required to be spot-checked. Additional producers selected for spot check for crop year 2007 **must** be selected no later than June 1, 2008.

**Note:** The additional producers shall be selected by June 1, 2008, but the spot check is **not** required until June 16, 2008.

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### 2 2007 MAL and LDP Spot Check Selection Process (Continued)

#### D Adding Producers for Spot Check (Continued)

MAL and LDP spot check results for the additional producers selected for spot check will **not** be required to be entered in the National database; however, County Offices shall record the reasons why the producer was selected for spot check and the spot check results in COC minutes. Also, if a shortage or violation is determined as a result of the spot check, County Offices shall record the shortage or violation in APSS, as applicable.

#### E State-Established Guidelines for Conducting Additional Spot Checks

STC's shall establish guidelines for conducting additional spot checks. STC's shall:

- determine how and when County Offices should select additional producers for spot check
- record the established guidelines in the STC minutes for auditing purposes.

#### F Handbook Policies

8-LP and 12-PS will be amended to include MAL and LDP policies and procedures for the new random spot check selection process.

### 3 Spot Checking 2006 and Prior Crop Year MAL's and LDP's

#### A 2005 and 2006 Crop Years Spot Check Selection Process

The 2005 and 2006 crop year MAL's and LDP's will be subject to the current random selection spot check process until December, 2007. APSS will be modified to only include 2006 and prior crop years in the monthly random selection process printed in APSS. County Offices shall continue to record the monthly spot check results in APSS as provided in 12-PS, Part 15.

**Spot Check Results To Be Recorded in National Compliance Review Database**

**A LDP Questionnaire**

**LDP Questions:**

- State Code: \_\_\_\_\_
- County Code: \_\_\_\_\_
- Crop Code: \_\_\_\_\_
- LDP No.: \_\_\_\_\_
- Original LDP Quantity: \_\_\_\_\_
- Original LDP Amount: \_\_\_\_\_

- Was a farm-visit conducted to complete the spot check? **Yes or No**

If No, explain.

**Example:** Production evidence was provided for certified LDP; indicate the type of acceptable production evidence provided.

- Will the spot check farm visit (paid measurement service) be used as final production evidence? **Yes or No**
- How many farm-storage structures (bins) were spot checked and measured?
- Provide Total Measured Quantity: \_\_\_\_\_
- Was the LDP quantity spot checked equal to or greater than the LDP quantity requested and disbursed? **Yes or No**

If no, indicate whether the LDP quantity measured resulted in a shortage or violation?

**Shortage or Violation**

- Has the producer violated the LDP terms and conditions? **Yes or No**

If yes, explain and indicate the actions taken.

**Spot Check Results To Be Recorded in National Compliance Review Database (Continued)**

**B MAL Questionnaire**

**MAL Questions:**

- State Code: \_\_\_\_\_
- County Code: \_\_\_\_\_
- Crop Code: \_\_\_\_\_
- Loan No.: \_\_\_\_\_
- Original Loan Quantity: \_\_\_\_\_
- Original Loan Amount: \_\_\_\_\_
- Outstanding Loan Quantity: \_\_\_\_\_
- Outstanding Loan Amount: \_\_\_\_\_
- Was a farm-visit conducted to complete the spot check? **Yes or No**

If No, explain:

**Example:** MAL repaid to zero, but market gain was earned; indicate the type of acceptable production evidence provided.

- Will the spot check farm visit (paid measurement service) be used as final production evidence? **Yes or No**
- How many farm-storage structures (bins) were spot checked and measured? \_\_\_\_\_

Provide total measured quantity. \_\_\_\_\_

- Was the loan quantity spot checked equal to or greater than the total loan quantity pledged as collateral? **Yes/No**

If no, was loan quantity measured resulted in a shortage or violation? **Shortage or Violation**

- Was the spot checked quantity properly maintained? **Yes or No**

If no, explain.

- Was the storage structure in good condition? **Yes or No**

If no, explain.

- Has the producer violated the terms and conditions of the Loan Note and Security Agreement? **Yes or No**

If yes, explain and indicate the actions taken.